



Audit  
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UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL

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SEP 26 2003

Control Number ED-OIG/A05-D0030

Mr. Charles I. Wilson, Director  
C. I. Wilson Academy II  
2033 E. Southern Ave.  
Phoenix, AZ 85040

Dear Mr. Wilson:

This **Final Audit Report** presents the results of our audit of the C. I. Wilson Academy II's (Academy) use of U.S. Department of Education (ED) funds for the period July 1, 2001, through June 30, 2002 (project period). The objective of our audit was to determine if the Academy expended ED funds according to the law and applicable regulations.

Our audit disclosed that the Academy did not expend Public Charter Schools Program (PCSP) grant funds in accordance with the law. The Academy was unable to show adequate support for \$63,189 of the \$160,000 in PCSP funds it received for the project period. The Academy was unable to show that it expended \$20,277 in PCSP funds for the project period (the Academy's general ledger showed it spent only \$139,723). In addition, the Academy was unable to provide adequate support for \$42,912 (of \$139,723) charged to the PCSP grant.

We provided a draft of this report to the Academy. However, the Academy did not provide us with comments.

### AUDIT RESULTS

#### **Finding No. 1 The Academy Could Not Support Its Use of \$63,189 in PCSP Funds**

During the project period, the Academy was unable to support its use of \$63,189 in PCSP funds received. The Academy drew down \$160,000 in PCSP funds for the project period. However, the Academy's general ledger showed only \$139,723 of expenses charged to the grant, a difference of \$20,277. In addition, of the 10 expenses (totaling \$139,723) recorded in the Academy's general ledger, the Academy had no support or inadequate support for 4 (totaling \$42,912). The Academy was unable to provide any

supporting documentation for costs charged to the grant for “Renting Land and Buildings” (\$14,778). Further, the Academy did not provide adequate support for costs charged to the grant for administrative oversight (\$6,600), curriculum development (\$7,766),<sup>1</sup> and computer technicians (\$13,768). The documentation provided in support of the administrative oversight, curriculum development, and computer technicians costs was inadequate because the Academy did not provide documentation such as employment contracts, memoranda, or other documentation to describe the work performed or the rate of compensation.

According to 34 C.F.R. § 75.702,<sup>2</sup> a grantee shall use fiscal control and fund accounting procedures that insure proper disbursement of and accounting for federal funds. Also, 34 C.F.R. § 75.730 states that a grantee shall keep records that fully show (a) the amount of funds under the grant, (b) how the grantee used the funds, (c) the total cost of the project, (d) the share of that cost provided from other sources, and (e) other records to facilitate an effective audit.

Office of Management and Budget Circular A-122, *Cost Principles for Non-Profit Organizations*, Attachment B, Section 39(b), states that in determining the allowability of costs in a particular case, no single factor or any special combination of factors is necessarily determinative. However, the adequacy of the contractual agreement for the service (e.g., description of the service, estimate of time required, rate of compensation, and termination provisions) is a relevant factor. Circular A-122, Attachment B, Section 7(m)(1), states the distribution of salaries and wages to awards must be supported by personnel activity reports, except when a substitute system has been approved in writing by the cognizant agency.

During the project period, the Academy did not have policies and procedures for reconciling the amount of PCSP grant funds received to the amount spent. Also, at the start of our audit in December 2002, the Academy’s current controller had only recently started working for the Academy. At that time, he was not completely familiar with the computer system and related codes for financial transactions. Additionally, we noted that the 10 expenses charged to the PCSP grant in the Academy’s general journal consisted of 10 adjusting entries on June 30, 2002. The Academy’s use of general journal adjusting entries to record expenses indicates the expenses were not recorded and charged to the grant when they were incurred.

Without records showing how it used the funds, the Academy cannot demonstrate that it used \$63,189 (\$20,277 + \$42,912) for the intended purposes of the PCSP grant.

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<sup>1</sup> Includes \$1,035 in travel expenses related to curriculum development.

<sup>2</sup> Unless otherwise specified, all regulatory citations are to the July 1, 2001, volume.

## Recommendations

We recommend that the Chief Financial Officer, Office of the Chief Financial Officer, in conjunction with the Deputy Under Secretary for Innovation and Improvement, instruct the Academy to

- 1.1 refund \$63,189 to ED;
- 1.2 develop and implement policies and procedures that provide reasonable assurance it records expenses when incurred and regularly reconciles the amount of federal funds received to the amount spent; and
- 1.3 develop and implement policies and procedures that provide reasonable assurance that it maintains adequate supporting documentation for all costs charged to federal grants.

## BACKGROUND

The purpose of the PCSP is to provide grants for the planning, design, and initial implementation of charter schools created by members of the local community. Grants may be made for a period of up to three years. Funds may be used to plan and design the education program of the charter school and evaluate the effects of charter schools.

Charter schools are governed by the charter school legislation enacted in the Elementary and Secondary Education Act of 1965, as amended by the Improving America's Schools Act of 1994, Title X, Part C, Section 10304(f)(3), and the Charter School Expansion Act of 1998.<sup>3</sup> Charter schools that receive a grant directly from the federal government must also adhere to regulations listed in 34 C.F.R. Parts 75, 82, and 99.

The Academy received its charter from the Arizona State Board for Charter Schools and opened in August 2001. The Academy applied for a PCSP grant and received its award from ED on August 15, 2001. The grant provided the Academy with startup funding for a three-year period. For the project period (July 1, 2001, through June 30, 2002), the first year of funding, the Academy received \$160,000.

## OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to determine if the Academy expended ED funds according to the law and applicable regulations. Our audit covered the award ED made on August 15, 2001, for \$160,000 and costs charged for the project period.

To accomplish our objective, we

- interviewed Academy personnel;

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<sup>3</sup> The law was amended by the No Child Left Behind Act of 2001, Title V, Part B.

- reviewed accounting records and identified 10 expenses charged to the PCSP grant totaling \$139,723; and
- compared the accounting records to supporting documentation (payroll information, invoices, and canceled checks) to determine if the 10 expenses charged to the PCSP grant were allowable and supportable.

We also relied, in part, on the Academy's computer-processed general ledger maintained using Peachtree® software. We compared the Academy's general ledger data with that in ED's Central Automated Processing System. We also compared the Academy's supporting documentation (consisting of payroll information, invoices, and canceled checks) with its general ledger data. Based on our tests, we concluded the data were sufficiently reliable to be used in meeting the audit's objective.

We performed our audit work between February and April 2003. We did not visit C.I. Wilson Academy II. However, we did visit C.I. Wilson Academy I on December 11, 2002,<sup>4</sup> and discussed the results of this audit with Academy officials on April 15, 2003.

Our audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of audit described above.

### STATEMENT ON MANAGEMENT CONTROLS

As part of our audit, we did not assess the adequacy of the Academy's management control structure applicable to all federal awards because this step was not necessary to achieve our audit objective. Instead, we relied on testing of the Academy's compliance with the PCSP law and applicable regulations. Our testing disclosed material weaknesses in the Academy's management controls over ED awards. The Academy did not have policies and procedures in place to provide reasonable assurance that it accounted for all federal funds received and recorded expenses when they were incurred. In addition, the Academy lacked policies and procedures that provide reasonable assurance that it maintained supporting documentation for all costs charged to federal grants. These weaknesses are discussed in the **AUDIT RESULTS** section of this report.

### ADMINISTRATIVE MATTERS

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. Determinations of corrective action to be taken will be made by the appropriate ED officials.

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<sup>4</sup> C.I. Wilson Academy I and C.I. Wilson Academy II have common administrators and are located next to one another in the same compound. We audited the PCSP funds awarded to C.I. Wilson Academy II after determining C.I. Wilson Academy I could not support its use of all PCSP funds (Control Number ED-OIG/A05-D0019).

If you have additional comments or information that you believe may have a bearing on the resolution of this audit, you should send them directly to the following ED officials, who will consider them before taking final action on the audit.

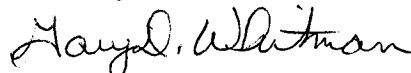
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It is ED's policy to expedite the resolution of audits by initiating timely action on the findings and recommendations contained therein. Therefore, receipt of your comments within 30 days would be greatly appreciated.

In accordance with the Freedom of Information Act (5 U.S.C. §552), reports issued by the Office of Inspector General are available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

Sincerely,



*for* Richard J. Dowd  
Regional Inspector General  
for Audit